STATEMENT OF MICHAEL J. KUSSMAN, MD, MS, MACP

ACTING UNDER SECRETARY FOR HEALTH
DEPARTMENT OF VETERANS AFFAIRS

FOR PRESENTATION BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HEALTH

FEBRUARY 14, 2007

Mr. Chairman and members of the Committee, good morning. I am pleased to be here today to present the President's 2008 budget proposal for the Veterans Health Administration (VHA). We are requesting $36.6 billion for medical care in 2008, a total more than 83 percent higher than the funding available at the beginning of the Bush Administration. Our total medical care request is comprised of funding for medical services ($27.2 billion), medical administration ($3.4 billion), medical facilities ($3.6 billion), and resources from medical care collections ($2.4 billion).

The President's requested funding level will allow the Veterans Health Administration (VHA) to continue to provide timely, high-quality health care to a growing number of patients who count on VA the most—veterans returning from service in Operation Iraqi Freedom and Operation Enduring Freedom, veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs.

Ensuring a Seamless Transition from Active Military Service to Civilian Life

The President's 2008 budget request provides the resources necessary to ensure that service members' transition from active duty military status to civilian life continues to be as smooth and seamless as possible. We will continue to ensure that every seriously injured or ill serviceman or woman returning from combat in Operation Iraqi Freedom and Operation Enduring Freedom receives the treatment they need in a timely way.

Last week, Secretary Nicholson announced plans to create a special Advisory Committee on Operation Iraqi Freedom/Operation Enduring Freedom Veterans and Families. The panel, with membership including veterans, spouses, survivors, and parents of the latest generation of combat veterans, will report directly to the Secretary. Under its charter, the committee will focus on the concerns of all men and women with active military service in Operation Iraqi Freedom or Operation Enduring Freedom, but will pay particular attention to severely disabled veterans and their families.

VA launched an ambitious outreach initiative to ensure separating combat veterans know about the benefits and services available to them. During 2006 VA conducted over 8,500 briefings attended by more than 393,000 separating service members and returning reservists and National Guard members. The number of attendees was 20 percent higher in 2006 than it was in 2005 attesting to our improved outreach effort.

Additional pamphlet mailings following separation and briefings conducted at town hall meetings are sources of important information for returning National Guard members and reservists. VA has made a special effort to work with National Guard and reserve units to reach transitioning service members at demobilization sites and has trained recently discharged veterans to serve as National Guard Bureau liaisons in every state to assist their fellow combat veterans.

Each VA medical center has a designated point of contact to coordinate activities locally and to ensure the health care needs of returning service members and veterans are fully met. VA has distributed specific guidance to field staff to make sure the roles and functions of the points of contact and case managers are fully understood and that proper coordination of benefits and services occurs at the local level.

For combat veterans returning from Iraq and Afghanistan, their contact with VA often begins with priority scheduling for health care, and for the most seriously wounded, VA counselors visit their bedside in military wards before separation to assist them with their disability claims and ensure timely compensation payments when they leave active duty.

In an effort to assist wounded military members and their families, VA has placed workers at key military hospitals where severely injured service members from Iraq and Afghanistan are frequently sent for care. These include benefit counselors who help service members obtain VA services as well as social workers who facilitate health care coordination and discharge planning as service members transition from military to VA health care. Under this program, VA staff provides assistance at 10 military treatment facilities around the country, including Walter Reed Army Medical Center, the National Naval Medical Center Bethesda, the Naval Medical Center San Diego, and Womack Army Medical Center at Ft. Bragg.

To further meet the need for specialized medical care for patients with service in Operation Iraqi Freedom and Operation Enduring Freedom, VA has expanded its four polytrauma centers in Minneapolis, Palo Alto, Richmond, and Tampa to encompass additional specialties to treat patients for multiple complex injuries. Our efforts are being expanded to 21 polytrauma network sites and clinic support teams around the country providing state-of-the-art treatment closer to injured veterans' homes. We have made training mandatory for all physicians and other

key health care personnel on the most current approaches and treatment protocols for effective care of patients afflicted with brain injuries. Furthermore, we established a polytrauma call center in February 2006 to assist the families of our most seriously injured combat veterans and service members. This call center operates 24 hours a day, 7 days a week to answer clinical, administrative, and benefit inquiries from polytrauma patients and family members.

In addition, VA has significantly expanded its counseling and other medical care services for recently discharged veterans suffering from mental health disorders, including post-traumatic stress disorder. We have launched new programs, including dozens of new mental health teams based in VA medical facilities focused on early identification and management of stress-related disorders, as well as the recruitment of about 100 combat veterans as counselors to provide briefings to transitioning service members regarding military-related readjustment needs.

Legislative Proposals

The President's 2008 budget request identifies three legislative proposals which ask veterans with comparatively greater means and no compensable service-connected disabilities to assume a small share of the cost of their health care. The first proposal would assess Priority 7 and 8 veterans with an annual enrollment fee based on their family income:

Family Income	Annual Enrollment Fee
Under $50,000	None
$50,000 - $74,999	$250
$75,000 - $99,999	$500
$100,000 and above	$750

The second legislative proposal would increase the pharmacy co-payment for Priority 7 and 8 veterans from $8 to $15 for a 30-day supply of drugs. And the last provision would eliminate the practice of offsetting or reducing VA first-party co-payment debts with collection recoveries from third-party health plans.

While our budget requests in recent years have included legislative proposals similar to these, the provisions identified in the President's 2008 budget are markedly different in that they have no impact on the resources we are requesting for VA medical care. Our budget request includes the total funding needed for the Department to continue to provide veterans with timely, high-quality medical services that set the national standard of excellence in the health care industry. Unlike previous budgets, these legislative proposals do not reduce our discretionary medical care appropriations. Instead, these three provisions, if enacted, would generate an estimated $2.3 billion in mandatory receipts to the Treasury from 2008 through 2012.

Workload

During 2008, we expect to treat about 5,819,000 patients. This total is more than 134,000 (or 2.4 percent) above the 2007 estimate. Patients in Priorities 1-6—veterans with service-connected conditions, lower incomes, special health care needs, and service in Iraq or Afghanistan—will comprise 68 percent of the total patient population in 2008, but they will account for 85 percent of our health care costs. The number of patients in Priorities 1-6 will grow by 3.3 percent from 2007 to 2008.

We expect to treat about 263,000 veterans in 2008 who served in Operation Iraqi Freedom and Operation Enduring Freedom. This is an increase of 54,000 (or 26 percent) above the number of veterans from these two campaigns that we anticipate will come to VA for health care in 2007, and 108,000 (or 70 percent) more than the number we treated in 2006.

Funding Drivers

Our 2008 request for $36.6 billion in support of our medical care program was largely determined by three key cost drivers in the actuarial model we use to project veteran enrollment in VA's health care system as well as the utilization of health care services of those enrolled:

- inflation;
- trends in the overall health care industry; and
- trends in VA health care.

The impact of the composite rate of inflation of 4.45 percent within the actuarial model will increase our resource requirements for acute inpatient and outpatient care by nearly $2.1 billion. This includes the effect of additional funds ($690 million) needed to meet higher payroll costs as well as the influence of growing costs ($1.4 billion) for supplies, as measured in part by the Medical Consumer Price Index. However, inflationary trends have slowed during the last year.

There are several trends in the U.S. health care industry that continue to increase the cost of providing medical services. These trends expand VA's cost of doing business regardless of any changes in enrollment, number of patients treated, or program initiatives. The two most significant trends are the rising utilization and intensity of health care services. In general, patients are using medical care services more frequently and the intensity of the services they receive continues to grow. For example, sophisticated diagnostic tests, such as magnetic resonance imaging (MRI), are now more frequently used either in place of, or in addition to, less costly diagnostic tools such as x-rays. As another illustration, advances in cancer screening technologies have led to earlier diagnosis and prolonged treatment which may include increased use of costly pharmaceuticals to combat this disease. These types of medical services have

resulted in improved patient outcomes and higher quality health care. However, they have also increased the cost of providing care.

The cost of providing timely, high-quality health care to our Nation's veterans is also growing as a result of several factors that are unique to VA's health care system. We expect to see changes in the demographic characteristics of our patient population. Our patients as a group will be older, will seek care for more complex medical conditions, and will be more heavily concentrated in the higher cost priority groups. Furthermore, veterans are submitting disability compensation claims for an increasing number of medical conditions, which are also increasing in complexity. This results in the need for disability compensation medical examinations, the majority of which are conducted by our Veterans Health Administration, that are more complex, costly, and time consuming. These projected changes in the case mix of our patient population and the growing complexity of our disability claims process will result in greater resource needs.

Quality of Care

The resources we are requesting for VA's medical care program will allow us to strengthen our position as the Nation's leader in providing high-quality health care. VA has received numerous accolades from external organizations documenting the Department's leadership position in providing world-class health care to veterans. For example, our record of success in health care delivery is substantiated by the results of the 2006 American Customer Satisfaction Index (ACSI) survey. Conducted by the National Quality Research Center at the University of Michigan Business School, the ACSI survey found that customer satisfaction with VA's health care system increased last year and was higher than the private sector for the seventh consecutive year. The data revealed that inpatients at VA medical centers recorded a satisfaction level of 84 out of a possible 100 points, or 10 points higher than the rating for inpatient care provided by the private-sector health care industry. VA's rating of 82 for outpatient care was 8 points better than the private sector.

Citing VA's leadership role in transforming health care in America, Harvard University recognized the Department's computerized patient records system by awarding VA the prestigious "Innovations in American Government Award" in 2006. Our electronic health records have been an important element in making VA health care the benchmark for 294 measures of disease prevention and treatment in the U.S. The value of this system was clearly demonstrated when every patient medical record from the areas devastated by Hurricane Katrina was made available to all VA health care providers throughout the Nation within 100 hours of the time the storm made landfall. Veterans were able to quickly resume their treatments, refill their prescriptions, and get the care they needed because of the electronic health records system—a real, functioning health information exchange that has been a proven success resulting in improved quality of care.

It can serve as a model for the health care industry as the Nation moves forward with the public/private effort to develop a National Health Information Network.

The Department also received an award from the American Council for Technology for our collaboration with the Department of Defense on the Bidirectional Health Information Exchange program. This innovation permits the secure, real-time exchange of medical record data between the two departments, thereby avoiding duplicate testing and surgical procedures. It is an important step forward in making the transition from active duty to civilian life as smooth and seamless as possible.

In its July 17, 2006, edition, Business Week featured an article about VA health care titled "The Best Medical Care in the U.S." This article outlines many of the Department's accomplishments that have helped us achieve our position as the leading provider of health care in the country, such as higher quality of care than the private sector, our nearly perfect rate of prescription accuracy, and the most advanced computerized medical records system in the Nation. Similar high praise for VA's health care system was documented in the September 4, 2006, edition of Time Magazine in an article titled "How VA Hospitals Became the Best." In addition, a study conducted by Harvard Medical School concluded that federal hospitals, including those managed by VA, provide the best care available for some of the most common life-threatening illnesses such as congestive heart failure, heart attack, and pneumonia. Their research results were published in the December 11, 2006, edition of the Annals of Internal Medicine.

These external acknowledgments of the superior quality of VA health care reinforce the Department's own findings. We use two primary measures of health care quality—clinical practice guidelines index and prevention index. These measures focus on the degree to which VA follows nationally recognized guidelines and standards of care that the medical literature has proven to be directly linked to improved health outcomes for patients. Our performance on the clinical practice guidelines index, which focuses on high-prevalence and high-risk diseases that have a significant impact on veterans' overall health status, is expected to grow to 85 percent in 2008, or a 1 percentage point rise over the level we expect to achieve this year. As an indicator aimed at primary prevention and early detection recommendations dealing with immunizations and screenings, the prevention index will be maintained at our existing high level of performance of 88 percent.

Access to Care

With the resources requested for medical care in 2008, the Department will be able to continue our exceptional performance dealing with access to health care—96 percent of primary care appointments will be scheduled within 30 days of patients' desired date, and 95 percent of specialty care appointments will be

scheduled within 30 days of patients' desired date. We will minimize the number of new enrollees waiting for their first appointment. We reduced this number by 94 percent from May 2006 to January 2007, to a little more than 1,400, and we will continue to place strong emphasis on lowering, and then holding, the waiting list to as low a level as possible.

An important component of our overall strategy to improve access and timeliness of service is the implementation on a national scale of Advanced Clinic Access, an initiative that promotes the efficient flow of patients by predicting and anticipating patient needs at the time of their appointment. This involves assuring that specific medical equipment is available, arranging for tests that should be completed either prior to, or at the time of, the patient's visit, and ensuring all necessary health information is available. This program optimizes clinical scheduling so that each appointment or inpatient service is most productive. In addition, this reduces unnecessary appointments, allowing for relatively greater workload and increased patient-directed scheduling.

Funding for Major Health Care Programs and Initiatives

Our request includes $4.6 billion for extended care services, 90 percent of which will be devoted to institutional long-term care and 10 percent to non-institutional care. By continuing to enhance veterans' access to non-institutional long-term care, the Department can provide extended care services to veterans in a more clinically appropriate setting, closer to where they live, and in the comfort and familiar settings of their homes surrounded by their families. This includes adult day health care, home-based primary care, purchased skilled home health care, homemaker/home health aide services, home respite and hospice care, and community residential care. During 2008 we will increase the number of patients receiving non-institutional long-term care, as measured by the average daily census, to over 44,000. This represents a 19.1 percent increase above the level we expect to reach in 2007 and a 50.3 percent rise over the 2006 average daily census.

The President's request includes nearly $3 billion to continue our effort to improve access to mental health services across the country. These funds will help ensure VA provides standardized and equitable access throughout the Nation to a full continuum of care for veterans with mental health disorders. The resources will support both inpatient and outpatient psychiatric treatment programs as well as psychiatric residential rehabilitation treatment services. We estimate that about 80 percent of the funding for mental health will be for the treatment of seriously mentally ill veterans, including those suffering from post-traumatic stress disorder (PTSD). An example of our firm commitment to provide the best treatment available to help veterans recover from these mental health conditions is our ongoing outreach to veterans of Operation Iraqi Freedom and Operation Enduring Freedom, as well as increased readjustment and PTSD services.

In 2008 we are requesting $752 million to meet the needs of the 263,000 veterans with service in Operation Iraqi Freedom and Operation Enduring Freedom whom we expect will come to VA for medical care. Veterans with service in Iraq and Afghanistan continue to account for a rising proportion of our total veteran patient population. In 2008 they will comprise 5 percent of all veterans receiving VA health care compared to the 2006 figure of 3.1 percent. Veterans deployed to combat zones are entitled to 2 years of eligibility for VA health care services following their separation from active duty even if they are not otherwise immediately eligible to enroll for our medical services.

Medical Collections

The Department expects to receive nearly $2.4 billion from medical collections in 2008, which is $154 million, or 7.0 percent, above our projected collections for 2007. As a result of increased workload and process improvements in 2008, we will collect an additional $82 million from third-party insurance payers and an extra $72 million resulting from increased pharmacy workload.

We have several initiatives underway to strengthen our collections processes:

- The Department has established a private-sector based business model pilot tailored for our revenue operations to increase collections and improve our operational performance. The pilot Consolidated Patient Account Center (CPAC) is addressing all operational areas contributing to the establishment and management of patient accounts and related billing and collections processes. The CPAC currently serves revenue operations for medical centers and clinics in one of our Veterans Integrated Service Networks but this program will be expanded to serve other networks.
- VA continues to work with the Centers for Medicare and Medicaid Services contractors to provide a Medicare-equivalent remittance advice for veterans who are covered by Medicare and are using VA health care services. We are working to include additional types of claims that will result in more accurate payments and better accounting for receivables through use of more reliable data for claims adjudication.
- We are conducting a phased implementation of electronic, real-time outpatient pharmacy claims processing to facilitate faster receipt of pharmacy payments from insurers.
- The Department has initiated a campaign that has resulted in an increasing number of payers now accepting electronic coordination of benefits claims. This is a major advancement toward a fully integrated, interoperable electronic claims process.

Medical Research

The President's 2008 budget includes $411 million to support VA's medical and prosthetic research program. This amount will fund nearly 2,100 high-priority research projects to expand knowledge in areas critical to veterans' health care needs, most notably research in the areas of mental illness ($49 million), aging ($42 million), health services delivery improvement ($36 million), cancer ($35 million), and heart disease ($31 million).

VA's medical research program has a long track record of success in conducting research projects that lead to clinically useful interventions that improve the health and quality of life for veterans as well as the general population. Recent examples of VA research results that are now being applied to clinical care include the discovery that vaccination against varicella-zoster (the same virus that causes chickenpox) decreases the incidence and/or severity of shingles, development of a system that decodes brain waves and translates them into computer commands that allow quadriplegics to perform simple tasks like turning on lights and opening e-mail using only their minds, improvements in the treatment of post-traumatic stress disorder that significantly reduce trauma nightmares and other sleep disturbances, and discovery of a drug that significantly improves mental abilities and behavior of certain schizophrenics.

In addition to VA appropriations, the Department's researchers compete for and receive funds from other federal and non-federal sources. Funding from external sources is expected to continue to increase in 2008. Through a combination of VA resources and funds from outside sources, the total research budget in 2008 will be almost $1.4 billion.

Capital Programs (Construction and Grants to States)

The 2008 request for construction funding for our health care programs is $750 million—$570 million for major construction and $180 million for minor construction. All of these resources will be devoted to continuation of the Capital Asset Realignment for Enhanced Services (CARES) program, total funding for which comes to $3.7 billion over the last 5 years. CARES will renovate and modernize VA's health care infrastructure, provide greater access to high-quality care for more veterans, closer to where they live, and help resolve patient safety issues. Within our request for major construction are resources to continue six medical facility projects already underway:

- Denver, Colorado ($61.3 million)—parking structure and energy development for this replacement hospital
- Las Vegas, Nevada ($341.4 million)—complete construction of the hospital, nursing home, and outpatient facilities
- Lee County, Florida ($9.9 million)—design of an outpatient clinic (land acquisition is complete)

- Orlando, Florida ($35.0 million)—land acquisition for this replacement hospital
- Pittsburgh, Pennsylvania ($40.0 million)—continue consolidation of a 3-division to a 2-division hospital
- Syracuse, New York ($23.8 million)—complete construction of a spinal cord injury center.

Minor construction is an integral component of our overall capital program. In support of the medical care and medical research programs, minor construction funds permit VA to address space and functional changes to efficiently shift treatment of patients from hospital-based to outpatient care settings; realign critical services; improve management of space, including vacant and underutilized space; improve facility conditions; and undertake other actions critical to CARES implementation. Our 2008 request for minor construction funds for medical care and research will provide the resources necessary for us to address critical needs in improving access to health care, enhancing patient privacy, strengthening patient safety, enhancing research capability, correcting seismic deficiencies, facilitating realignments, increasing capacity for dental services, and improving treatment in special emphasis programs.

Information Technology

The most critical IT project for our medical care program is the continued operation and improvement of the Department's electronic health record system, a Presidential priority which has been recognized nationally for increasing productivity, quality, and patient safety. Within this overall initiative, we are requesting $131.9 million for ongoing development and implementation of Health*e*Vet-VistA (Veterans Health Information Systems and Technology Architecture). This initiative will incorporate new technology, new or reengineered applications, and data standardization to improve the sharing of, and access to, health information, which in turn, will improve the status of veterans' health through more informed clinical care. This system will make use of standards accepted by the Secretary of Health and Human Services that will enhance the sharing of data within VA as well as with other federal agencies and public and private sector organizations. Health data will be stored in a veteran-centric format replacing the current facility-centric system. The standardized health information can be easily shared between facilities, making patients' electronic health records available to them and to all those authorized to provide care to veterans.

Until Health*e*Vet-VistA is operational, we need to maintain the VistA legacy system. This system will remain operational as new applications are developed and implemented. This approach will mitigate transition and migration risks associated with the move to the new architecture. Our budget provides $129.4

million in 2008 for the VistA legacy system. Funding for the legacy system will decline as we advance our development and implementation of Health*e*Vet-VistA.

Summary

Our 2008 budget request of $36.6 billion for medical care will provide the resources necessary for VA to strengthen our position as the Nation's leader in providing high-quality health care to a growing patient population, with an emphasis on those who count on us the most—veterans returning from service in Operation Iraqi Freedom and Operation Enduring Freedom, veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs.

Mr. Chairman, I am very proud to be leading the Veterans Health Administration at this time. I am proud of our system and its accomplishments, and l look forward to working with the members of this committee to continue the Department's tradition of providing timely, high-quality health care to those who have helped defend and preserve freedom around the world.